GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:465
ANSWERED ON:18.11.2016
Priority Sector Lending
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Will the Minister of FINANCE be pleased to state:

(a) whether according to rating agency, India Rating And Research, the Small Finance Banks (SFBs) will be a major suppliers of Priority Sector Lending Certificates (PSLCs) to help commercial banks meet their shortfalls and will constitute upto 40 per cent of the PSLC market by 2019-20;
(b) if so, the details thereof and the quantum of loans likely to be disbursed by SFBs;
(c)whetherthe non-banking finance companies can be impacted by lowering of spreads by an effectively priced PSLC market; and
(d) if so, the details thereof?

Answer

(MINISTER OF STATE IN THE MINISTRY OF FINANCE)

(a) to (d):Government of India vide Notification dated February 04, 2016 has specified "Dealing in Priority Sector Lending Certificates (PSLCs) in accordance with the Guidelines issued by Reserve Bank of India" as a form of business under Section 6 (1)(o) of the Banking Regulation Act, 1949. The purpose of introduction of PSL Certificate is to enable banks to achieve the priority sector lending target and sub targets by purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under priority sector.

RBI has reported that they do not have any information on the stated opinion of Indian Rating and Research and the projections by a ratings agency regarding the impact of small finance banks (SFBs) on the priority sector lending certificate market by 2019-20 would be of the nature of estimation by a market analyst. Of the 10 applicants who have received in-principle approval for setting up small finance banks, only two applicants have commenced business as small finance banks, as of now. The impact of small finance banks on the priority sector lending certificate market and quantum of loans likely to be disbursed by them, cannot be ascertained at this point of time.

RBI has further mentioned that prior to the introduction of PSLCs, in addition to the direct lending, banks also had the option to invest in the securitized assets of NBFCs or transfer of assets through direct assignment/ outright purchases. With the introduction of PSLCs, banks will have an additional instrument towards achievement of their PSL targets/ sub-targets. It is expected that the spread of NBFCs may partially align with the prevailing premiums under PSLC mechanism.

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